



United States  
Department of  
Agriculture

Food and  
Nutrition  
Service

Mountain  
Plains  
Region

1244 Speer Boulevard  
Denver, CO 80204

Reply to  
Attn. of:

SP 94-C-7

NOV 8 1993

Subject:

Disposition of the Nonprofit School Food Service (SFS) Account Resources When  
School Food Authorities (SFAs) or Schools Under SFAs Withdraw from School  
Nutrition (SN) Programs

To:

STATE AGENCY DIRECTORS - Colorado ED, Iowa, Kansas, Missouri ED,  
(Special Nutrition Programs) Montana OPI, Nebraska ED, North Dakota,  
South Dakota, Utah, Wyoming ED

We are attaching a policy memorandum from our National Office which clarifies  
major issues connected with the above subject. If you have questions about this  
policy please contact our office.

*Ann C. Hector*  
ANN C. HECTOR  
Regional Director  
Special Nutrition Programs

Attachment

Disposition of nonprofit School Food Service (SFS) account resources by School Food Authorities (SFAs) which cease all School Nutrition (SN) Program operations:

Federal grant closeout procedures are applicable when SFAs cease to participate in all SN programs. Subpart N to Part 3015, Uniform Federal Assistance Regulations, provides specific guidelines which should be used in these situations. Briefly, these provisions establish the SFA's right to retain all resources, cash and noncash, held in their nonprofit SFS account, except for any unearned advances of Federal monies or equipment with an acquisition cost of more than \$1,000 per unit, when the equipment was directly funded with Federal monies. This would be limited to equipment funded with School Breakfast Program (SBP) Start-up Grant monies, because, by agreement, SFAs receiving these grants must participate in the SBP for a period of three consecutive years or repay the entire grant amount. Please note, however, that once the three year time frame for participation has been met, the SFA retains full rights and title to the property without any requirements for repayment. While Federal requirements will not govern the disposition of the nonprofit SFS account in these situations, except for the SBP Start-up Grant funded equipment, State agencies (SAs) may establish disposition requirements.

Disposition of nonprofit SFS account resources by SFAs which cease to operate the National School Lunch Program (NSLP):

When an SFA chooses to withdraw from the NSLP in all of its schools, but continues to operate the SBP in all or some of its schools, the nonprofit SFS account requirement continues to apply to the SFA and any schools participating in either the SBP or Special Milk Program (SMP). The requirements established under Part 220 parallel the NSLP requirements regarding the nonprofit SFS account and do not establish separate standards for the account if only the SBP is operated. Any revenue resulting from the disposition (sale, transfer or trade-in) of noncash resources such as food (excluding donated foods which have specific disposition requirements), supplies and equipment no longer needed by the SFA would accrue to the benefit of the nonprofit SFS account. Additionally, all revenue resulting from the operation of both the SBP and SMP, as well as any nonprogram activities operated principally for the benefit of the school children under the nonprofit SFS account, must accrue to the nonprofit food service.

When the SFA chooses to operate only the SMP in all or some of its schools and no longer has any schools participating in either the NSLP or SBP, the nonprofit SFS account requirements do not apply; however, the SFA must operate a nonprofit milk program. The SFA should transfer the appropriate resources of the nonprofit SFS account attributable to the SMP to the nonprofit milk program account; however, the SFA may dispose of the remaining nonprofit SFS account resources in any manner they

choose, except for USDA donated foods and equipment purchased with SBP Start-up Grant monies. Again, the SA may establish requirements governing the disposition of the nonprofit SFS account in these situations.

Disposition of nonprofit SFS account resources when schools withdraw from SN programs:

Unlike the SFA withdrawal from SN programs where the SFA ceases to exist, the withdrawal of an individual school or schools under the SFA does not render the SFA nonexistent, nor does it change the conditions of the agreement taken by the SFA to operate the SN programs. In situations where a school(s) no longer participates in any SN programs, the issue is whether the nonparticipating school(s) may retain and/or receive benefits from the nonprofit SFS account. Disbursement of cash resources from the account to nonparticipating schools is not allowable, nor may nonparticipating schools retain noncash resources funded from the account, except under specific restrictions.

Maintaining accounting records of revenues and expenses by school does not change the regulatory requirements of the nonprofit SFS account, nor does it provide a basis for a withdrawing school to retain any cash or other assets held by the school. Therefore, a withdrawing school must return all SFS cash held by the school and provide specific inventories of SFS account resources such as food (donated and purchased), supplies and equipment to the SFA. Equipment or supplies at the school which were never funded by the account may be retained by the school.

Under Part 210.9 and Part 220.7, the nonprofit SFS account is established at the SFA level, not the school level. The nonprofit status of the SFS account is controlled by the restrictions placed upon the type of expenses which may be charged to the account and how revenues which are credited to the account may be used. Under Part 210 and Part 220, expenses and revenues used to determine the nonprofitability and operating balance of the account are computed on an SFA-wide, not school basis.

Because expenses of nonparticipating schools may not be funded from the nonprofit SFS account, the only remaining issue is whether supplies, both food and nonfood, already funded under the account may be retained by a nonparticipating school. To allow a nonparticipating school to retain these supplies would effectively allow the nonprofit SFS account to support nonparticipating school activities. Clearly, this is not in compliance with the intent of the Program. The SFA can decide whether it is reasonable to transfer the supplies to a participating school or whether the nonparticipating schools can retain the supplies and reimburse the SFA for their value. Either method is acceptable, as long as the reimbursement method is based upon accepted accounting principles. The cash-out provision cannot be applied to any remaining inventories of USDA

donated foods. These foods must be transferred within the SFA to schools participating in the NSLP.

While transferring supplies may not be overly burdensome, transferring equipment, particularly certain types of kitchen equipment, may not be feasible. Except for equipment funded directly with Federal funds (SBP Start-up Grants), an SA may permit nonparticipating schools to retain equipment funded with nonprofit SFS account funds, without reimbursement to the SFA, under the following provisions:

- a. The SFA has no use for the equipment in any participating school;
- b. The SFA retains title to the equipment;
- c. Depreciation of the equipment is not charged by the SFA to the nonprofit SFS account.

Disposition of nonprofit SFS account resources when schools withdraw from the NSLP but operate either or both the SBP or SMP:

The status of the nonprofit SFS account is not affected when schools cease operation of the NSLP but maintain operation of the SMP or SBP. Since the SFA is still operating the NSLP and/or SBP in other schools, the nonprofit SFS account remains intact for all schools under its agreement for SN program operations. Furthermore, all revenue from the nonprogram food service operations conducted under the nonprofit SFS account by the school, principally for the benefit of its enrolled children, i.e., an a la carte lunch service, must accrue to the nonprofit SFS account.